85-283

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

No.

ARGUS CHEMICAL CORPORATION

Petitioner,

v.

FIBRE GLASS-EVERCOAT CO.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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QUESTIONS PRESENTED

1. Under what circumstances can a patent be declared unenforceable for fraudulent procurement when the patent is not anticipated or rendered obvious by prior art supposedly withheld?

2. Is the expansion of the doctrine of fraudulent procurement by the Court of Appeals for the Federal Circuit to invalidate otherwise valid patents in the absence of conduct which would traditionally be considered "inequitable" consistent with Article I, Section 8, Clause 8 of the U.S. Constitution and the patent statute, 35 U.S.C.?

PARTIES

The caption identifies all parties. Argus Chemical Corporation has the following affiliate: Witco Chemical Corp.

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PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

The Petitioner Argus Chemical Corporation respectfully prays that a Writ of Certiorari issue to review the Judgment and Opinion of the United States Court of Appeals for the Federal Circuit entered in this proceeding on April 4, 1985.

OPINION BELOW

The Opinion of the Court of Appeals, 759 F.2d 10, appears in the Appendix hereto as Item I. The Findings and Conclusions of the District Court for the Central District of California appear in the Appendix hereto as Item II.

JURISDICTION

The Judgment of the Court of Appeals for the Federal Circuit was entered on April 4, 1985. A timely petition for rehearing and suggestion for rehearing en banc were denied on May 20, 1985, and this Petition for Certiorari was filed within Ninety (90) days of that date. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

QUESTIONS PRESENTED

1. Under what circumstances can a patent be declared unenforceable for fraudulent procurement when the patent is not anticipated or rendered obvious by prior art supposedly withheld?

2. Is the expansion of the doctrine of fraudulent procurement by the Court of Appeals for the Federal Circuit to invalidate otherwise valid patents in the absence of conduct which would traditionally be considered "inequitable" consistent with Article I, Section 8, Clause 8 of the U.S. Constitution and the patent statute, 35 U.S.C.?

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

1. U.S. Constitution, Article I.

Section 8, Clause 8. Patents and Copyrights

"To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;"

2. Title 35, U.S Code

Section 101. Inventions patentable.

"Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter,

or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

Section 102. Condtions for patentability; novelty and loss of right to patent.

"A person shall be entitled to a patent unless—

* * * *

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to date of the application for patent in the United States,

* * * *

Section 103. Conditions for patentability; non-obvious subject matter.

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made."

STATEMENT OF THE CASE

In 1961, Argus' predecessor in interest filed a patent application for what became the "Pigmentation Patent". The original application contained claims for both a dry and a wet composition, but in 1962 the fact that sales had been made of the dry composition more than one year prior to the filing date was discovered. The application was then amended so that the claims did not read on the dry compositions sold, and the dry claims were eventually dropped from the case entirely before issuance, the issued patent having only claims to the wet composition.

The prior dry sales were not disclosed to the Patent Office because the attorney prosecuting the application did not think that they were material. At that time, Section 102(b) (anticipation) and 103 (obviousness) of the patent statute were generally considered to be separate and independent patentability requirements. It was not until 1965, in the landmark decision of *In re Foster*, 343 F.2d 980, 989 (CCPA 1965) that Sections 102 and 103 were essentially integrated by reference to case law prior to the enactment of the patent statute in 1952, with the obviousness standard of Section 103 applied to prior art as defined in Section 102(b). From 1952 to 1965, the patent statute enacted in 1952 was read literally, and the obviousness determination was applied to the prior art that existed "... at the time the invention was made ..." (35 USC 103), as in *In re Palmquist*, 319 F.2d 547, 550-1 (CCPA 1963). The prior dry sales did not anticipate the amended claims (Section 102(b)) and they were not pertinent to obviousness as that question was interpreted in 1962 because they were not in existence when the invention was made (Section 103). In addition, the attorney prosecuting the application did not consider that the prior dry sales, even if considered prior art, rendered obvious the claims for the wet composition.

In 1978, this action for patent infringement of the Pigmentation Patent and also a different Homogeneous Patent was filed by Argus against Fibre Glass-Evercoat. The action was suspended shortly after it was filed when Argus requested that contested reissue proceedings be initiated before the Patent and Trademark Office, a practice which had recently been introduced and which has since been discontinued. During the contested reissue proceedings, in which Fibre Glass participated, all information concerning alleged prior sales as to the Pigmentation Patent and the Homogeneous Patent were disclosed to the Examiner. The Examiner indicated that the prior sales neither anticipated nor rendered obvious the claimed inventions in the Pigmentation and Homogeneous Patents. Following this determination, a trial was held in the Central District of California, and the trial court held the patents valid and infringed.

The Court of Appeals for the Federal Circuit reversed the trial court's decision, holding the patents unenforceable for

"inequitable conduct" without reaching the questions of validity and infringement. Essentially, the Federal Circuit held that the prior dry sales were "material" under the "PTO standard", namely, 37 C.F.R. 1.56, issued in 1977. This rule indicates that all prior art which the Examiner would consider "important" should be disclosed. The Federal Circuit further indicated that the "fraudulent intent" requirement for inequitable conduct was satisfied by the attorney's failure to act as a "reasonable patent attorney", namely, his failure to follow the materiality standard of the subsequently enacted 37 C.F.R. 1.56. The Federal Circuit held that the attorney's good faith reliance on the literal reading of the patent statute, his belief that the prior sales did not render obvious the claims in issue, and the fact that the sales did not invalidate the patent, did not defeat the charge of fraudulent procurement. According to the Federal Circuit the failure to disclose prior art that the Examiner would consider important, without more, constituted inequitable conduct.

ARGUMENT

The questions presented by this petition are of extreme importance to the patent system, established by the U.S. Constitution, for two reasons:

1. The petition calls into question the extent to which otherwise valid patents for legitimate inventions can be declared unenforceable for supposed misconduct by the attorney prosecuting the application; and

2. The petition, if granted, will determine whether patents obtained prior to 1977 are rendered unenforceable by the failure of the prosecuting attorney to anticipate the issuance of 37 C.F.R. 1.56

A. Unenforceability of Otherwise Valid Patents

The decision on which this Petition is based has disasterous consequences not only to patents procured prior to 1977, but to the integrity of patents in general. The decision holds that the prosecuting attorney's good faith belief that the supposed prior art was not material, coupled with the fact that the Patent

Office and trial court held that the undisclosed prior art did not render the patent inventions anticipated or obvious, was not enough to defeat a charge of fraudulent procurement (which the Federal Circuit now chooses to call "inequitable conduct"). The Federal Circuit states in its decision that inequitable conduct "... is broader than the common law tort of fraud." (Opinion, p. A-7). But what is it?

This Court has recognized that a patent may be rendered unenforceable by virtue of fraud or inequitable conduct, but only on the basis of truly bad faith conduct. In *Keystone Driller Co. v. General Excavator Co.* (1933) 290 U.S. 240, 54 S.Ct. 146, 78 L.Ed. 293, this Court held that the corruption of a witness in prior litigation gave rise to an unclean hands defense, and denied enforcement of the patent. In *Hazel-Atlas Glass Co. v. Hartford-Empire Co.* (1944) 322 U.S. 238, 64 S.Ct. 997, 88 L.Ed. 1250, this Court held that the fabrication of evidence praising an invention, relied on heavily in the Patent Office and in subsequent litigation, rendered a patent invalid. Indeed, the patent attorneys in *Hazel-Atlas* were subsequently disbarred by the Patent Office, *Kingsland v. Dorsey,* (1949) 338 U.S. 318, 70 S.Ct. 173, 94 L.Ed. 123. In *Precision Instr. Mfg. Co. v. Automotive M. Mach. Co.* (1945) 324 U.S. 806, 65 S.Ct. 993, 89 L.Ed. 1381, this Court held that the withholding of knowledge that perjury had been committed in an interference involving the patent in question was unclean hands and again barred enforcement of the patent. In *Walker Process Equip. v. Food Mach. Chem. Corp.* (1965) 382 U.S. 172, 86 S.Ct. 347, 15 L.Ed.2d 247, this Court held that an antitrust counterclaim might be maintained for fraudulent procurement of a patent, and defined fraudulent procurement as follows:

> "Walker's counterclaim alleged that Food Machinery obtained the patent by knowingly and willfully misrepresenting facts to the Patent Office. Proof of this assertion would be sufficient to strip Food Machinery of its exemption from the antitrust laws. By the same token, Food Machinery's good faith would furnish a complete defense." 382 U.S. at 177.

These decisions provide no precedent whatsoever for the decision presently under review. Here, the Federal Circuit held:

> "Counsel's subjective 'good faith' does not, therefore, negate inequitable conduct." (Opinion, p. A-7)

The is completely at odds with the definition for fraudulent procurement given by this Court in *Walker Process* which states that good faith is a complete defense. The Federal Circuit has turned the doctrine of inequitable conduct on its head—if inequitable conduct includes activities conducted in good faith, which were not reckless or otherwise grossly negligent, what is excluded?

The U.S. Constitution and 35 U.S.C. provide that an inventor is entitled to a patent unless the invention is anticipated or rendered obvious by the prior art. To that framework this Court has grafted the defense of fraudulent procurement, which is essentially an extension of the unclean hands doctrine of equity. But for that doctrine to apply, the hands must not be clean. It makes no sense to take the "inequitable" out of "inequitable conduct", but that is what the Federal Circuit has done.

The problems created by the Federal Circuit's elimination of fraudulent intent as an element of inequitable conduct is compounded by its introduction of a broad materiality standard. Prior to the introduction of the PTO standard in 1977 when 37 C.F.R. 1.56 was issued, the generally accepted test for materiality was the "but for" test set forth in *Norton v. Curtiss*, 433 F.2d 779, 794 (CCPA 1970). Under the "but for" test, materiality is established if the Examiner would not have allowed the claims had he been aware of the withheld prior art. Indeed, the parties hereto had agreed that this was the appropriate standard before the trial court in this action. Of course, the application of this standard to the facts in question mandates a conclusion that no fraud exists, because after being informed of the prior art, the Patent and Trademark Office reallowed the applications on reissue.

The Federal Circuit found *In re Clark*, 522 F.2d 623 (CCPA 1975), to be "uniquely on point with respect to both the nature of the offense here and the time when it occurred."

(Opinion, p. A-5) What the Federal Circuit does not mention is that in *Clark* the patent had been held invalid on the withheld prior art in prior litigation, whereas here it had been held valid. Also, in Clark the patent attorney had been aware of the pertinence of the prior art, while here the attorney did not consider the prior sales to be material as the patent statute was interpreted at that time.

It is submitted that no basis exists for the Federal Circuit's extension of the doctrine of inequitable conduct to patents not anticipated or rendered obvious by the prior art, when there has been no bad faith conduct. The primary consideration in determining whether a patent is valid or invalid should be whether the patent covers a legitimate invention. Valid patents to legitimate inventions should be declared unenforceable only where there has been conduct which in fact is "inequitable" and which is clearly material.

B. Patents Obtained Prior to 1977

The decision under review presents a special problem as to patents obtained on applications prosecuted prior to 1977, when 37 C.F.R. 1.56 was issued. The Federal Circuit indicates that the PTO standard of materiality, which is contained in 37 C.F.R. 1.56, is consistent with prior case law. This is true to the extent that the duty of disclosure had been established by this court well prior to the issuance of that rule. However, what the Federal Circuit failed to appreciate in this case is that, while the duty of disclosure was not new, the standard of materiality set forth in that rule was new. The Federal Circuit need only look at its predecessor's own decision of *Norton v. Curtiss*, 433 F.2d 779, 794 (CCPA 1970), recognizing the "but for" test of materiality.

Prior to 1977, it was not standard practice to cite all prior art which the Examiner might consider important for determination of patentability. Prior art which the patent attorney considered in good faith not to anticipate or render obvious the claimed invention was typically not disclosed. Applying the new materiality standard retroactively, along with the elimination of the fraudulent intent requirement, means that the validity of patents obtained prior to 1977 (which may not

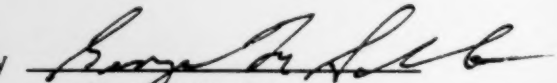
expire until 1994) is in serious question, no matter what the merit of the inventions patented. Simply put, if allowed to stand, the validity of patents from that era will be determined by whether some nondisclosed item of prior art might have been "important" to the Examiner, rather than whether the prior art anticipates or renders obvious the claimed invention.

CONCLUSION

The energies of the Federal Circuit in patent cases should be directed toward distilling valid patents to legitimate inventions from those which do not merit patent protection. The right to a patent is established by the Constitution, has been implemented by Congress, and is not to be defeated by a loosely defined concept of "inequitable conduct" in which bad faith is not even a consideration.

Dated: Aug 16, 1985.

TOWNSEND AND TOWNSEND

By 

George M. Schwab
Attorneys for Petitioner

APPENDIX I

United States Court of Appeals for the Federal Circuit

ARGUS CHEMICAL CORPORATION,
Appellee,
v.
FIBRE GLASS-EVERCOAT COMPANY, INC.,
Appellant.

Appeal No. 84-1418

DECIDED: April 4, 1985

Before DAVIS, KASHIWA and NIES, *Circuit Judges.* NIES, *Circuit Judge.*

This appeal involves a patent infringement suit tried in a bench trial before the district court of the Central District of California. Because we hold that the patents in suit, U.S. Patent Nos. 3,181,991 and 3,182,026, were procured by inequitable conduct, we reverse the judgment of the district court holding appellant liable for infringement.

I.

Argus Chemical Corporation is the owner of U.S. Patent No. 3,181,991 (the "Pigmentation Patent") and U.S. Patent No. 3,182,026 for homogeneous pigmented perioxide compositions (the "Homogeneous Patent"). The respective filing

dates, the significance of which will become apparent, are August 7, 1961 and March 14, 1962. Both patents relate to a type of pigmented peroxide composition. The products are useful as a catalyst or "hardener" for polyester resin used as autobody putty.

In a suit filed in 1978, Argus charged Fibre Glass-Evercoat Company with infringement of claims 2-5 of the '991 Pigmentation Patent and claims 3-5 of the '026 Homogeneous Patent, all of which include water as an ingredient.[1] The claims of the Pigmentation Patent as originally written read equally well on both "dry" and "wet" compositions of the product. Upon confirming that sales had been made of dry pigmented benzoyl peroxide compositions prior to August 7, 1960, so as to constitute an "on sale" time bar under 35 U.S.C. § 102(b), the attorney handling the application amended the claims, before initial examination, to avoid reading directly on any of the dry products sold, and, thereafter, all claims to dry compositions were dropped. The examiner was never informed of the sales of any dry composition.

Additional sales prior to the March 14, 1961, critical date were not disclosed in connection with the Homogeneous Patent.[2] Those sales involved pigmented benzoyl peroxide compositions which contained a stabilizing agent to avoid separation.

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[1] The charges of infringement of another patent and other claims were dropped. The parties stipulated that validity and infringement stand or fall on the basis of claim 2 of '991 and claim 3 of '026, other claims being dependent. These claims read as follows:

> '991: Claim 2. A stable catalyst composition comprising an organic peroxide, a wholly compatible non-white color pigment selected from the group consisting of red iron oxide, black iron oxide, yellow iron oxide, chrome orange, phthalocyanine and ferric ferrocyanide with which the active oxygen content of said organic peroxide remains substantially constant in an amount just sufficient to impart a preselected amount of coloration to the composition, and a fluid diluent including a minor amount of water inert with respect to said organic peroxide and pigment.
>
> '026: Claim 3. A non-separating pigmented peroxide composition in approximate parts by weight, 50% benzoyl peroxide, 15% water, 25% plasticizer, and 10% detergent; and a pigment with which the active oxygen content of said peroxide remains substantially constant in an amount to impart a pre-selected amount of coloration to said composition.

[2] We find it unnecessary to discuss Fibre Glass' further charge of inequitable conduct by Argus's failure to disclose U.S. Patent No. 2,910,443, issued to Bader.

During the course of these proceedings, Fibre Glass sought to establish invalidity under § 102(b) on the basis of the prior sales or under § 103 on the basis of obviousness, *inter alia*, in view of the sold compositions. *See In re Foster*, 343 F.2d 980, 145 USPQ 166 (CCPA 1965), *cert. denied*, 383 U.S. 966 (1966). In addition, Fibre Glass charged Argus with "fraud" (inequitable conduct)[3] in failing to disclose such sales to the PTO.

Prior to trial Argus returned to the PTO, under the now-defunct, no-fault reissue proceedings, for consideration of the sales and other additional prior art not previously considered by the PTO. It appears that the PTO continued to find the claims patentable under §§ 102 and 103 despite the sales and additional reference.[4]

Upon return to the district court, the court ultimately determined that lack of novelty and obviousness were not established by Fibre Glass, and that there was no breach of an applicant's duty of candor during examination under the standard of the early '60's by Argus's failure to disclose the subject sales.

II.

Discussion

In this appeal we lay to rest any further argument that in the past the standard for disclosure of known prior art only required that a reference which fully anticipated a patent, thereby destroying novelty under 35 U.S.C. § 102, was required to be disclosed to the PTO under an applicant's duty of candor.

In this case, Argus presented the following findings of fact, which the district court adopted:

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[3] In *J.P. Stevens & Co., Inc.* v. *Lex Tex Ltd., Inc.*, 747 F.2d 1553, 1559, 223 USPQ 1089, 1092 (Fed. Cir. 1984), this court adopted the terminology "inequitable conduct" to identify a breach of the duty of candor to the PTO in order to make it clear that such malfeasance is to be distinguished from common law "fraud."

[4] The PTO action is not clear. The final action states that "sale of the claimed composition prior to the critical date has not been proven with a preponderance of evidence."

32. Also, in the early 1960's, applicant's duty of disclosure to the Patent Office examiner was much different than it is today. *At the time, it was generally accepted in the profession that the applicant need only disclose prior art which it knew to be an anticipation or near anticipation of the invention claimed—prior art that may be pertinent to a consideration of obviousness but which the applicant in good faith did not believe to be anticipating or near anticipating, was not disclosed to the Patent Office.*

33. Because the prior sales were not the same as that claimed, i.e., were not considered to be an "anticipation" or near-anticipation, and were not considered pertinent to a consideration of "obviousness", they were not disclosed to the Patent Office. This lack of disclosure might not satisfy today's standards but was in accordance with accepted standards at the time of the events in question. [Emphasis added.]

Argus cites to us no precedent for this standard of acceptable conduct, but instead relies on an expert witness, an experienced patent attorney, who testified:

A. As far as disclosure was concerned, search was not always made, but when it was made and if a reference amounted to an anticipation, a full disclosure—here it is sort of referenced—or came so close to that that the claims would have only minor alterations, then we had a choice and we did either one of two things, disclose it or abandon the application.

Q. Thank you. Now, if the reference was not considered to be in anticipation or near anticipation, was a disclosure generally made?

A. No, it was not, except laying out background in the specification.

The question of the appropriate standard for determining inequitable conduct in procuring a patent is one of law. Thus, the testimony of an attorney on the practice which some attorneys followed is irrelevant. Moreover, even if, in some circuits, the standard were as stated by the witness, it was not the law in all circuits or in the Court of Customs and Patent

Appeals or in the U.S. Court of Claims. We reject the view that one's duty to the PTO should be judged by the least common denominator.

The precedent of *In re Clark*, 522 F.2d 623, 187 USPQ 209 (CCPA 1975) is uniquely on point with respect to both the nature of the offense here and the time when it occurred. As stated therein:

> While appellant may have believed that Stow et al. was not a relevant reference, the Patent and Trademark Office now has ample evidence from which to conclude that Stow et al. was *known* by Beckman to be highly relevant prior art. The duty to disclose relevant, material prior art under these circumstances, known to the applicant or his agents and not found by the examiner, is well established. The Strickler memorandum shows how relevant and material Beckman considered Stow et al. to be. If appellant considered his claims sufficiently narrow to be clear of the close Stow et al. reference, the examiner, and not he or "others skilled in this art," was the person to decide whether appellant's original claims had been amended sufficiently to be patentable over Stow et al. We do not agree that appellant could, under the state of the law in 1956 or now, amend claims *expressly* to avoid a § 102 reference unknown to the examiner and justifiably consider there was no duty to bring that reference to the examiner's attention.

Id. at 627, 187 USPQ at 212-213. *Accord, Driscoll v. Cebalo*, 731 F.2d 878, 884-85, 221 USPQ 745, 750 (Fed. Cir. 1984) (current PTO regulations consistent with prior case law in federal courts).[5]

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[5] It bears repeating that some decisions in which the term "anticipation" appears must be read with the understanding that "anticipation" in the case law prior to the Patent Act of 1952 may not have been used in the sense it is today. As also stated in *In re Clark*, 522 F.2d at 635, 187 USPQ at 219 n.9:

> It is obvious from the unquestionable differences between Stow and the claims on appeal that the Fifth Circuit used the term "anticipation" broadly to mean that the subject matter of the claims was not patentable over Stow, rather than as a term of art in patent law to mean that the basis of invalidity was 35 U.S.C. § 102. As noted by the author of the majority opinion, courts occasionally fail to understand the jargon of patent law. Rich, *Laying the Ghost of the "Invention" Requirement*, 1 APLAQ 26, 40 (1972).

Argus seeks to avoid a decision that inequitable conduct occurred in prosecution because the withheld information does not meet the high standard of materiality which the parties agreed was set forth in *Norton v. Curtiss*, 433 F.2d 779, 794, 167 USPQ 532, 544 (CCPA 1970):

> In patent cases, "materiality" has generally been interpreted to mean that if the Patent Office had been aware of the complete or true facts, the challenged claims would not have been allowed.

Undoubtedly the statement appears in *Norton v. Curtiss*. We cannot see how acknowledging that it does binds Fibre Glass to that standard.

This court has rejected any single test for "materiality" in determining inequitable conduct. Most recently, the court stated in *J.P. Stevens*, 747 F.2d at 1559, 223 USPQ at 1092:

> "Inequitable conduct" requires proof by clear and convincing evidence of a threshold degree of materiality of the nondisclosed or false information. It has been indicated that the threshold can be established by any of four tests: (1) objective "but for"; (2) subjective "but for"; (3) "but it may have been"; and (4) PTO Rule 1.56(a), i.e., whether there is a substantial likelihood that a reasonable examiner would have considered the omitted reference or false information important in deciding whether to allow the application to issue as a patent. *American Hoist*, 725 F.2d at 1362, 220 USPQ at 772-73. The PTO standard is the appropriate starting point because it is the broadest and because it most closely aligns with how one ought to conduct business with the PTO. *American Hoist*, 725 F.2d at 1363, 220 USPQ at 773.

Argus does not assert that the information was not material under the PTO standard. Moreover, we need look no further than the testimony of Argus's expert witness to hold that materiality is established. As that witness stated:

> [A]ssuming what was sold did indeed contain compatible pigments then that would be *pertinent* for consideration. [Emphasis added.]

Argus also attempts to avoid a holding of inequitable conduct by reason of the subjective "good faith" of its attorney, a defense applicable in common law fraud cases. It is Argus' position that the precedent of this court is in error by failing to recognize that "fraud" is an *intentional* tort and that the "good faith" of the party charged with fraud is always a complete defense. Thus, per Argus, the subjective "good faith" of its attorney in his understanding of the law negates the charge of fraud.

Contrary to Argus' view, conduct before the PTO which may render a patent unenforceable is broader than the common law tort of fraud. *J.P. Stevens*, 747 F.2d at 1559, 223 USPQ at 1092. With respect to intent, in the *J.P. Stevens* case the court stated specifically:

> [T]hreshold intent is established where an actor in an applicant's position would have reasonably known that the reference was material, *e.g.*, that the reference would have been important to a reasonable examiner in deciding whether to allow the claims.

Id. at 1564, 223 USPQ at 1096.

Counsel's subjective "good faith" does not, therefore, negate inequitable conduct. Rather, the question, as in *J.P. Stevens*, is whether a reasonable person in the position of Argus' counsel knew or should have known that the information was material. On this issue Argus' counsel argues, in effect, that one in his position would not have considered the sales information material to the PTO because until *In re Palmquist*, 319 F.2d 547, 138 USPQ 234 (CCPA 1963), was overruled by *In re Foster, supra*, it was generally understood that an inventor's own sales could not be used against him in determining obviousness under § 103. It is difficult to see how *Palmquist*, a decision rendered after the inequitable conduct in this case, could justify Argus' action. In any event, nothing in *Palmquist* relates to the question of an applicant's nondisclosure of a statutory time bar under § 102(b) against claims in a pending application, which could be avoided only by deletion or amendment of claims.

Because the withheld information on sales was clearly material, and Argus' attorney should have known of its importance to the PTO's consideration, inequitable conduct under the precedent of this court has been established. The district court erred, as a matter of law, in applying the standard proposed by Argus to the undisputed facts of this case.

In view of our disposition of this case on the ground that the patents are unenforceable due to inequitable conduct, we do not need to address the other substantive issues of validity or infringement.

The case is *remanded* for further proceedings in accordance herewith.

REVERSED AND REMANDED

APPENDIX II

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FILED
MAY 24, 1984
CLERK, U.S. DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA
BY _____ DEPUTY

IN THE UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA

ARGUS CHEMICAL CORPORATION, a Delaware corporation,

Plaintiff,

v.

FIBRE GLASS-EVERCOAT COMPANY, INC.,

Defendant.

Civil Action No. 78-2620-JWC

FINDINGS OF FACT AND CONCLUSIONS OF LAW

This action having been tried upon the facts by the Court without a Jury, the Court hereby finds the Facts and states separately Conclusions of Law thereon, and directs the entry of the appropriate Judgment, as follows:

FINDINGS OF FACT

1. Argus Chemical Corporation ("Argus") is a Delaware corporation.

2. Fibre Glass Evercoat Company, Inc. "(Fibre Glass") is an Ohio corporation.

3. This Court's jurisdiction over the parties and the subject matter of this action is admitted.

4. Argus is the owner of U.S. Patent No. 3,191,991 (the "Pigmentation" patent), and U.S. Patent No. 3,182,026 (the "Homogeneous" patent).

5. After this lawsuit was filed, the action was stayed at Argus' request and with Fibre Glass' consent so that reissue applications could be filed on the Pigmentation and Homogenous Patents and a third patent no longer in issue.

6. The stay allowed Fibre Glass to continue its discovery on the issues of validity of the patents and fraud on the Patent and Trademark Office so that Fibre Glass could present such evidence to the Patent and Trademark Office for consideration during the reissue examinations.

7. Fibre Glass did conduct discovery and actively participated in the reissue proceedings. The patents have been found patentable over the prior art in the reissue proceedings.

8. Argus is charging Fibre Glass with infringement of claims 2-5 of the Pigmentation Patent and claims 3-5 of the Homogeneous Patent. Validity and infringement are predicated on claim 2 of the Pigmentation Patent and claim 3 of the Homogeneous Patent, the remaining claims being dependent.

A. Patent Validity

9. The Pigmentation Patent issued May 4, 1965, on an application dated August 7, 1961, and the "critical date" as far as prior art is concerned under 35 USC § 102(b) is August 7, 1960.

10. The Homogeneous Patent issued May 4, 1965 on an application dated March 14, 1962, and the "critical date" as far as prior art is concerned under 35 USC § 102(b) is March 14, 1961.

11. The patents were originally obtained by U.S. Peroxygen Corporation ("USP"), which was merged into Argus in 1967. U.S. Peroxygen Company (also "USP") was incorporated in 1976 as a wholly owned subsidiary of Argus and took over the business of manufacturing and selling peroxides from Argus, but Argus retained ownership of the patents.

12. The 17-year term of the Pigmentation and Homogeneous patents expired May 4, 1982.

13. The patents disclose certain organic peroxide paste compositions which act as a "hardener" in making rigid polyester (plastic) materials. The hardeners described in the patents are mixed with the polyester and act as a catalyst to form a relatively rapid setting mass. The most common use for such materials is as filler materials in the repair of automobile bodies, usually called autobody putty.

14. The patents stem from Leveskis' resolution of certain problems which had hampered the use of peroxide hardeners before the subject inventions, particularly in uncontrolled conditions by unskilled laborers as found in the autobody repair industry.

15. First and foremost, peroxide by itself is highly inflammable and explosive, and it must be mixed with a plasticizer to form a "paste" for safety unless its usage is closely monitored and controlled. Mixing the plasticizer with the peroxide was no problem, but the paste tended to separate before use, resulting in a product which was commercially unacceptable and contained potentially dangerous concentrations of peroxide. Before the subject inventions, the solution to this problem was to vacuum the paste so that essentially all of the water was removed, inhibiting physical separation, but this procedure was very expensive and time consuming and not all that successful.

16. A second problem that existed prior to the subject inventions was that a mixture of the peroxide and polyester to form the autobody putty would not yield the desired rigid mass if the mixing was not complete and uniform. Both the peroxide paste and the polyester are naturally white, and it was difficult for unskilled workers to tell if they are properly mixed when an informal mixing procedure was used, such as in an autobody

repair shop. The general concept of pigmenting one constituent of a mixture so that incomplete mixing was readily apparent was known at the time, but it was generally thought that pigments could not be added to the peroxide paste during manufacture and stored prior to use because they would react with the peroxide so that the peroxide would not serve as a proper hardener. This is particularly true in a composition with water because the water facilitates the undesired reaction of the pigment with the peroxide.

17. The Pigmentation Patent specifies certain criteria developed by Leveskis, the inventor, which must be satisfied by the pigments which may be used in a pigmented peroxide paste which contains water. Out of the large number of available pigments, Leveskis found that only six would satisfy his criteria for a water containing peroxide composition. Claim 2 of this patent is limited to a composition containing an organic peroxide, a fluid diluent with water, and the six pigments usable in such a composition.

18. The Homogeneous Patent sets forth certain techniques for developing an "activated gel" which will prevent separation of a pigmented peroxide paste into its constituents during its expected shelf life. Claim 3 of the Homogeneous Patent sets forth a particular combination of ingredients including approximately ten percent (10%) detergent and fifteen percent (15%) water, a combination which provides sufficient activated gel to prevent the paste from separating.

19. The inventions set forth in the Pigmentation and Homogeneous patents, and in particular the inventions of claim 2 of the Pigmentation Patent and Claim 3 of the Homogeneous Patent, in tandem solved the above identified problems and provide a commercially practical pigmented peroxide paste hardener. The product made according to the teachings of both patents contains a pigment to facilitate complete mixing with the polyester, water so that the existing water contained in the peroxide paste need not be removed by vacuuming, and an activated gel which renders the paste nonseparating.

20. The prior art which is pertinent to the patentability of claim 2 of the Pigmentation Patent includes certain materials considered by the Examiner in the original prosecution, and

also USP's own sales, prior to the critical date, of pigmented benzoyl peroxide paste which had been vacuumed to remove all water (dry), and unpigmented benzoyl peroxide paste which had not been vacuumed to remove the water (wet). Some but not all of the pigments used in the dry pigmented peroxide paste would also have been stable in a wet pigmented peroxide paste.

21. The chemical and physical properties of a dry pigmented peroxide paste and a wet pigmented peroxide paste are substantially different, in that the dry compositions contain an insignificant amount of water, while the wet compositions contain a relatively small percentage of water by weight but a large percentage by number of molecules (approximately 50% of the molecules are water). Accordingly, finding pigments stable in a wet composition is a substantially different problem than finding pigments stable in a dry composition.

22. Claim 2 of the Pigmentation Patent specifies an organic (e.g., benzoyl) peroxide paste with water and the six pigments which the inventor had determined would satisfy his criteria for pigments in a water containing-composition. The prior sales do not disclose Leveskis' criteria for pigments in a wet composition, nor the particular six pigments which are usable in a wet composition to the exclusion of all other pigments which are not.

23. As to claim 3 of the Homogeneous Patent, the most pertinent prior art is the Vartanian patent, U.S. Patent No. 3,061,554, cited by the Patent and Trademark Office both in the original prosecution and in the reissue. Vartanian discloses various aqueous emulsions of different peroxide compositions, and discusses the difficulty of preventing the particular emulsions from separating. The Vartanian peroxide emulsions contained a large proportion of water (36% to 47.5%), small quantities of detergent (2.5% to 4%) and 30% to 50% peroxide. Of the various types of peroxides tested, Vartanian found that only Pinane Hydroperoxide would not separate in such an emulsion, and specifically found that benzoyl peroxide and all others tested would separate.

24. Claim 3 of the Homogeneous Patent defines a pigmented peroxide composition with 50% benzoyl peroxide, 25% plasticizer, 15% detergent, and 10% water, and this formulation has been found to be non-separating. This composition differs from the Vartanian emulsions in that it contains a pigment, far less water, much more detergent, and perhaps most important, that it does not separate, the objective sought. Vartanian does not suggest the detergent gel which is the subject of the claims at issue in the Homogeneous Patent, which finds no precedent in the prior art.

25. The level of skill in the art as to the inventions of both patents would have been an individual with limited chemical training involved in the commercial production of peroxide compositions in about 1960-1961.

26. To establish the validity of the patents in issue relative to defendant's claims that pertinent prior art was not considered by the Patent Office, the patents have been the subject of reissue proceedings in the Patent Office, resulting in the Patent Office's reaffirmance of the patentability of the subject matter over the prior art (including USP's own prior sales) and confirming the presumption that the patents are valid.

27. The inventions set forth in the Pigmentation and Homogeneous Patents have enjoyed considerable commercial success from their introduction into the market in the early 1960's. Indeed, it is not disputed that essentially all of the autobody putty hardener sold in the United States comes within the scope of the patents at issue, and all sales of such material in the United States were by plaintiff and its licensees, or consisted of the infringing sales by defendant Fibre Glass.

28. Prior to the subject inventions, the use of peroxides, particularly in uncontrolled environments with unskilled labor, was extremely dangerous and the results were not always that effective. The present inventions changed that, and now the use of pigmented peroxide paste compositions as hardeners is the standard in autobody repair work, and is found in other industries also.

B. Non-Statutory Defense—Fraudulent Procurement

29. The subject inventions resulted from a long period of trial and error by the inventor, Leveskis, while associated with USP in the late 1950's and early 1960's. During that time, Leveskis was trying to solve problems associated with USP's benzoyl peroxide products, problems which were then common to the industry. Certain of his trial efforts were sold by USP prior to the critical dates of the patents, although no prior sale was actually ever made of an anticipating product, i.e., one within the scope of the issued patent claims.

30. The application for the Pigmentation Patent was originally written to cover both the pigments which could be used in a dry pigmented peroxide composition, and the pigments usable in a composition with water. During the prosecution of this application, it was determined that certain dry pigmented peroxide compositions had been sold prior to the critical date. The claims were first limited to exclude those particular dry compositions sold, and thereafter all claims to dry compositions were dropped and only claims to compositions with the more limited group of pigments usable in the presence of water were pursued. USP did not inform the Patent and Trademark Office of the dry pigmented paste sales, or of the unpigmented wet paste sales, which had occurred prior to the critical date of the Pigmentation patent, during the prosecution of the original application for that patent.

31. In the early 1960's, when the application for the Pigmentation Patent was being prosecuted, the patent statutes were given a different reading by the courts as to what constituted relevant prior art in determining "obviousness" under 35 USC § 103. Now, the courts read Sections 102 and 103 together but that was not how it was done at the time. As a result, sales based on Leveskis' work were not considered relevant prior art by USP's attorney as far as a determination of "obviousness" under Section 103, but only as to "anticipation" under Section 102.

32. Also, in the early 1960's, applicant's duty of disclosure to the Patent Office examiner was much different than it is today. At the time, it was generally accepted in the profession that the applicant need only disclose prior art which it knew to

be an anticipation or near anticipation of the invention claimed —prior art that may be pertinent to a consideration of obviousness but which the applicant in good faith did not believe to be anticipating or near anticipating, was not disclosed to the Patent Office.

33. Because the prior sales were not the same as that claimed, i.e., were not considered to be an "anticipation" or near-anticipation, and were not considered pertinent to a consideration of "obviousness", they were not disclosed to the Patent Office. This lack of disclosure might not satisfy today's standards but was in accordance with accepted standards at the time of the events in question.

34. The Pigmentation Patent as issued covers wet peroxide compositions, the pigments being compatible with such wet peroxide compositions, and the patent does not claim the early dry pigmented compositions sold prior to the critical date.

35. Before the invention of the pertinent claims of the Homogeneous Patent was made by Leveskis, he had tried various stabilizers in an attempt to render the compositions nonseparating. Certain of these early efforts were sold prior to the critical date, but none of the early sales were satisfactory and none came within the scope of the claims of the Homogeneous Patent.

36. During the reissue proceedings on the Pigmentation patent, the prior sales of pigmented peroxide compositions which had been vacuumed to remove water, and the prior sales of wet unpigmented compositions, were before the Patent and Trademark Office. After being informed of these prior sales the Examiner still allowed the subject matter (in the form of reissue applications) over this and other prior art.

37. Plaintiff's predecessor, USP, did not have fraudulent intent when it failed to disclose prior sales which, under the law at the time, were not considered pertinent to patentability nor anticipating of the inventions claimed.

C. Infringement

38. Claim 2 of the Pigmentation Patent reads as follows:

"A stable catalyst composition comprising an organic peroxide, a wholly compatible non-white color pigment

selected from the group consisting of red iron oxide, black iron oxide, yellow iron oxide, chrome orange, phthalocyanine and ferric ferrocyanide with which the active oxygen content of said organic peroxide remains substantially constant in an amount just sufficient to impart a preselected amount of coloration to the composition, and a fluid diluent including a minor amount of water inert with respect to said organic peroxide and pigment."

39. Claim 3 of the Homogeneous Patent reads as follows:

"A non-separating pigmented peroxide composition in approximate parts by weight, 50% benzoyl peroxide, 15% water, 25% plasticizer, and 10% detergent; and a pigment with which the active oxygen content of said peroxide remains substantially constant in an amount to impart a preselected amount of coloration to said composition."

40. From about 1975 through the expiration date of the patents, Fibre Glass Evercoat sold a red pigmented peroxide composition and a blue pigmented peroxide composition, containing the following constituents:

CONSTITUENT	BLUE COMPOSITION	RED COMPOSITION
benzoyl peroxide	44.8 %	44.4%
water	14 %	14 %
Santicizer 160	17.5 %	18 %
Factoil 39	7 %	7.1%
detergent	8.7 %	11.4%
pigment	1.18%	3.3%
(pigment vehicle)	5.12%	0.0%
thickening agent	1.7 %	1.8%

41. The red pigment used by Fibre Glass is red iron oxide, the blue pigment is ferric ferrocyanide, and both pigmented compositions contain pigments which are specified in claim 2 of the Pigmentation Patent.

42. The pigmented peroxide pastes sold by Fibre Glass fall within the scope of claim 2 of the Pigmentation Patent by containing an organic peroxide (benzoyl peroxide), one of the

specified pigments (red iron oxide or ferric ferrocyanide), and a fluid diluent (Santicizer 150 and Factoil 39) with a minor amount (14%) of water, the term "minor" being defined in the patent as less than 25%.

43. The pigmented peroxide pastes sold by Fibre Glass come within the scope of claim 3 of the Homogeneous Patent by containing approximately 50% benzoyl peroxide (44%-45%), just less than 15% water (14%), almost exactly 25% plasticizer (Santicizer 160 and Factoil 39), and almost exactly 10% detergent (the blue composition being slightly less and the red being slightly greater). The 44-45% peroxide constituent is within the scope of the "approximate parts by weight, 50%" claimed because the problem of stabilization of the peroxide and plasticizer is solved by the same combination of detergent and water to form the activated gel.

D. Antitrust Issues

44. The parties entered into mutual general releases in 1968, and the court has accordingly limited the action to acts and events occurring subsequent to December 17, 1968, except to the extent that such acts and events relate to the defense of the patent infringement claim.

45. No basis has been found for defendant's antitrust counterclaim resulting from acts after December 17, 1968, nor, for that matter, before that date.

CONCLUSIONS OF LAW

1. This Court has jurisdiction over the parties and the subject matter of this action and venue is proper. 18 USC §§ 1338, 1400.

A. Patent Validity

2. 35 USC § 282 provides that: "A patent shall be presumed valid." This is a strong presumption which can only be overcome by clear and convincing evidence. *Saf-Gard Products, Inc. v. Service Parts, Inc.*, 532 F.2d 1266, 1271 (9 Cir. 1976); *Santa Fe-Pomeroy, Inc. v. P&Z Co., Inc.*, 569 F.2d 1084

(9 Cir. 1978). The presumption of validity is strengthened where the Patent Office has considered the most pertinent prior art. *TSC Industries, Inc. v. International Harvester Co.*, 406 F.2d 53 (7 Cir. 1968); *Neff Instrument Corp. v. Cohu Electronics, Inc.*, 298 F.2d 82 (9 Cir. 1961).

3. The presumption of validity as to the pigmentation patent was questioned by the fact that some of the pertinent prior art, namely USP's own sales, was not before the Patent Office when the initial patent was granted. However, this presumption has been sustained by the Patent Office's allowance of the identical claims in the reissue proceedings after being informed of such sales. The most pertinent prior art to the Homogeneous Patent has been before the Patent Office in both the original and reissue proceedings, and its presumption of validity has not been tainted. Clear and convincing evidence is thus required to rebut the strong presumption of validity of the subject patents.

4. The guidelines for testing the validity of a patent are found in *Graham v. John Deere Co.*, 383 U.S. 1, 15 L.Ed.2d 545, 86 S.C. 684 (1966); *Carpet Seaming Tape Licensing Corp. v. Best Seam Inc.*, 616 F.2d 1133 (9 Cir. 1982). In *Graham* the Court noted that patentability is dependent upon three conditions: Utility as articulated and defined in 35 USC § 101, novelty as required by 35 USC § 102 and non-obviousness as set out in 35 USC § 103.

5. The utility of the subject inventions is established by the fact that essentially all of the autobody putty in the United States uses a hardener coming within the scope of the inventions, and the inventions have other uses as well.

6. "Anticipation" pursuant to 35 USC § 102 means the disclosure in the prior art of a thing substantially identical with the claimed invention. *In re Arkley*, 445 F.2d 586 (CCPA 9172). See *Cool-Fin Electronics Corp. v. International Electronic Research Corp.*, 491 F.2d 660 (9 Cir. 1974). "Unless all of the elements are found in exactly the same situation and united in the same way to perform the identical function in a single prior art reference there is no anticipation." *Saf-Gard Products, Inc. v. Service Parts, Inc., supra*, 532 F.2d at 1270; *Jones v. Vefo, Inc.*, 609 F.2d 409, 410 (9 Cir. 1979).

7. The burden of proof of one alleging anticipation is a heavy one. *Washburn & Moen Mfg. Co. v. Beat'em All Barbed Wire Co.*, 143 U.S. 275 (1892); *Illinois Tool Works, Inc. v. Brunsing*, 389 F.2d 38 (9 Cir. 1968); *Hensley Equipment Co., Inc. v. Esco Corp.*, 375 F.2d 432 (9 Cir. 1967).

8. And the character of evidence required to establish a prior use or sale must be clear and convincing. *Kalvar Corp. v. Xidex Corp.*, 384 F.Supp. 1162 (N.D. Cal. 1973).

9. Fibre Glass has not demonstrated by clear and convincing evidence or otherwise that a product coming within the scope of the pertinent Pigmentation or Homogeneous Patent claims was sold prior to the critical dates of the respective patents.

10. Turning to the question of non-obviousness, there are several basic factual inquiries which must be made. As the Supreme Court noted in *Graham v. John Deere Co., supra*, 383 U.S. 17 at 18:

> "Under Section 103, the scope and content of the prior art are to be determined; differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this background, the obviousness or non-obviousness of the subject matter is to be determined. Secondary considerations as commercial success, long-felt but unsolved needs, failure of others, etc., may be utilized to give light to the circumstances surrounding the origin of the subject matter sought to be patented. As indicia of obviousness or non-obviousness, these inquiries may have relevancy."

Accord: *Austin v. Marco Dental Products, Inc.*, 560 F.2d 966 (9 Cir. 1977); *Saf-Gard Products, Inc. v. Service Parts, Inc., supra*, 532 F.2d 1266; *Palmer v. Orthokinetics, Inc.*, 611 F.2d 3 (9 Cir. 1980); *Carpet Seaming Tape Licensing Corp. v. Best Seam Corp.*, 616 F.2d 1133 (9th Cir. 1982).

11. Applying the *Graham* test for obviousness to the facts found above it is clear that the prior art does not sufficiently teach the present invention so as to render it "obvious" to one skilled in the art at the time that the inventions were made.

Moreover, the subject inventions satisfy the secondary tests ennunciated by *Graham*, specifically, commercial success and the satisfaction of a long-felt but unsolved need.

12. Fibre-Glass has not demonstrated by clear and convincing evidence or otherwise that the inventions set forth in the pertinent Pigmentation and Homogeneous Patent claims were obvious.

13. Claim 2 of the Pigmentation Patent and claim 3 of the Homogeneous Patent are valid.

B. Non-Statutory Defense—Fraudulent Procurement

14. A failure to disclose even the most relevant prior art is not "fraud" if done in good faith, *Digital Equipment Corporation v. Diamond et al.*, 653 F.2d 701, 715 (1 Cir. 1981). At the time that the application for the Pigmentation Patent was under prosecution, Sections 102 and 103 of the patent statutes were read very literally, *In Re Palmquist*, 138 USPQ 234 (CCPA 1963), and applicant did not consider its prior sales of dry pigmented compositions to be prior art as to the claimed wet compositions. This interpretation of the law was later changed, *In Re Foster*, 145 USPQ 166, 174 (CCPA 1965), and *Palmquist* was specifically overruled. It is clear that to the extent the prior sales was not disclosed to the Patent Office by applicant, the non-disclosure was based on an honest belief that, as the law was understood at the time, the prior dry sales did not constitute pertinent prior art.

15. Another requirement for fraud is that the misrepresentation (or lack of disclosure) be "material". As stated in *Norton v. Curtiss*, 167 USPQ 532, 545 (CCPA 1970):

> "In patent cases, 'materiality has generally been interpreted to mean that if the Patent Office had been aware of the complete or true facts, the challenged claims would not have been allowed. See e.g., *Charles Pfizer & Co. v. FTC*, 401 F.2d 574, 159 USPQ 193 (6th Cir. 1968)."

USP's sale of related products is not "material" because the Patent and Trademark Office, when informed of these sales during the course of the reissue applications, indicated that the inventions claimed were still patentable.

16. Fibre Glass has failed to demonstrate two elements of a fraudulent procurement defense, intent to commit a fraud, and materiality of the alleged lack of disclosure.

C. Infringement

17. Patent infringement is the unauthorized making, using or selling of an invention covered by a valid claim of a patent during the life of the patent. 35 USC § 271.

18. In determining whether an accused composition infringes a valid patent, the composition is to be compared to the language of the claims of the patent. If the accused matter falls clearly within the claims, the claims are infringed. *Graver Tank Mfg. Co., Inc. v. Linde Air Products Co.*, 339 U.S. 605 (1949), *Hansen v. Colliver*, 282 F.2d 66 (9 Cir., 1960).

19. Claim 2 of the Pigmentation Patent and claim 3 of the Homogeneous Patent are infringed by Fibre Glass' blue and red pigmented perioxide paste compositions.

D. Damages

20. Claim 2 of the Pigmentation Patent and claim 3 of the Homogeneous Patent having been found valid and infringed by Fibre Glass' manufacture and sale of its blue and red pigmented peroxide paste compositions, Argus is entitled to an accounting for damages from July 21, 1972 (six years prior to service of the Complaint) through May 4, 1982, the expiration date of the patents.

SO ORDERED.

Dated: May 24, 1984

JESSE W. CURTIS

U.S. District Court Judge

Supreme Court, U.S.
FILED
SEP 13 1985
JOSEPH F. [illegible]
CLERK

No. 85-283

In the Supreme Court
OF THE
United States

October Term, 1985

ARGUS CHEMICAL CORPORATION,
Petitioner,
vs.
FIBRE GLASS-EVERCOAT COMPANY, INC.,
Respondent.

OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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Statement Under Rule 28.1

Respondent Fibre Glass-Evercoat Company, Inc., does not have any parent companies, subsidiaries that are not wholly owned, or affiliates.

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OPPOSITION TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

OPINIONS BELOW

The Findings and Conclusions adopted by the District Court (Pet. appendix A-9) were those prepared and submitted by petitioner before the court trial. The Opinion of the Court of Appeals for the Federal Circuit (Op. Pet. appendix A-1) is reported at 759 F.2d 10 (Fed. Cir. 1985).

JURISDICTION

Respondent concurs in the jurisdictional statement on page 2 of petitioner's brief.

STATUTORY PROVISIONS AND RULES

In addition to the statutory provisions quoted on pages 2 and 3 of the petition, respondent adds the Rules of the Patent Office set forth in respondent's appendix, attached.

STATEMENT OF THE CASE

This Opposition is filed on behalf of respondent Fibre Glass-Evercoat Company, Inc.

Petitioner's statement of the case is largely argumentative and factually incorrect. Indeed, the questions presented by petitioner set forth assertions, contrary to the admitted facts, which are assumed to be true.

The claims of the applications as originally filed covered compositions which had been sold more than one year prior to the filing of those applications. This serious problem was recognized by the attorney prosecuting the applications. The claims of the applications were amended, but the Patent Office examiner was not told why they were amended or that there was a statutory bar. This deliberate withholding of material information from the examiner enabled the attorney prosecuting these applications, secretively, to draw the line between what he alone thought was and was not patentable. The Patent Office examiner was thus intentionally deprived of information known to be material to the outcome of these patent applications.

The Federal Circuit properly found that petitioner's admitted conduct has traditionally been considered inequitable, as a correct statement of the case will demonstrate.

A. The Patents in Suit and the Material Information Not Disclosed

The patent applications[1] which became the patents in suit originally claimed both a "dry" and "wet" composition. These compositions are peroxide catalysts. A small amount is used to harden a larger bulk of automotive body putty used in the autobody repair industry (Pet. appendix A-11, Finding 13). Each of the compositions included a color pigment so that incomplete mixing of the catalyst composition and the putty could be visually checked, an admittedly well known procedure at the time (Pet. appendix A-11, 12, Finding 16).

The dry composition, admittedly sold (Pet. Brief, page 3; Pet appendix page A-13, Finding 30), was a complete anticipation[2] of some of the then pending claims of the patent applications which ultimately became the Pigmentation Patent and the Homogeneous Patent. The anticipatory effect of the prior sales arose because the pigment used in the dry composition was the same pigment used in the wet composition, a fact finally established immediately prior to trial.

The only difference, if there is any difference at all, between the composition sold and the composition finally claimed, was the presence of a "minor amount of water" or "15% water", (Op. Pet. appendix A-2, and n. 1). Interestingly, the Patent Office examiner was of the persuasion that the presence of a small amount of water was not patentable (E. 303, P. 828). This view was shared by Mr. Friedman, an affiant, who represented to the examiner that the presence of water was, "... an immaterial difference and was used for ease of formulation."

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[1]One application was filed on August 7, 1961 and the other on March 14, 1962. The significance of these dates will become apparent.

[2]35 U.S.C. 102(b), see Pet. Brief, page 3.

(A. 345, Tr. 643). Even the attorney prosecuting the application stated that "Applicant claims no invention in the mere addition of water . . ." (A. 330, Tr. 630; A. 327, Tr. 623). The examiner was unable to find the combination of a compatible color pigment and a peroxide in the prior art available during the Patent Office search.[3]

The invention was thus said to be the use of a compatible pigment to impart "color". It is conceded that the pigment (red iron oxide) used in the dry composition was the same as that claimed in the wet composition and that such a pigment was compatible with each of the dry and wet compositions.

The prior barred sales were recognized by Mr. Hillman, the attorney prosecuting the applications, to be a "significant problem" (Tr. 538) and one which could "potentially destroy" the validity of the patent (Tr. 538, 540). In petitioner's words, ". . . Hillman's testimony was that the claims were amended to avoid the 102(b) problem." (Pet. Brief below, page 29, last paragraph).

It is not contested that the prior barred sales were discovered in early 1962 and led to amendments, in May 1962, of the claims of the then pending applications (Op. Pet. appendix A-2; appendix A-15, Finding 30). It was admitted that the effect of the amendments, made specifically to avoid the Section 102(b) problem, was to shave the claims as much as one could to avoid reading directly on the composition involved in the prior barred sales (A. 319, Tr. 579). the barred sales were by no means insignificant. In the period of November 5, 1959 to July

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[3]A Patent Office search covers issued and published patents and publications. It is virtually impossible for the examiner to discover prior public uses or sales, unless that information is disclosed by those having knowledge of the facts. For that reason, great reliance is placed on the applicant's oath. Here the oath was false.

21, 1960, over eight thousand (8,000) pounds of the anticipating composition were sold (E. 98, pages 11-12).

B. The Hollow "Good Faith" Defense

In the face of these admitted facts, the very best *argument* that petitioner could muster was that the attorney prosecuting the applications did not think that the prior sales were material (Pet. Brief, page 4). And yet, the very same attorney thought the undisclosed prior sales were sufficiently important to amend the claims in the first instance. Given these admitted facts and recognizing that there was an "uncompromising duty" of disclosure, the Federal Circuit correctly rejected the notion that counsel's subjective "good faith" negated inequitable conduct (Op. Pet. appendix A-7).

So too, the Federal Circuit properly did not accept the argument (Pet. Brief, page 4) that *In re Palmquist,* 319 F.2d 547 (C.C.P.A. June 1963), was the controlling law and that by that decision, Sections 102 and 103 of the statute were considered separate and independent patentability requirements.

As the appellate court noted, *Palmquist* had not been decided at the time the amendments were made to the patent applications. Further, *Palmquist,* had nothing to do with the uncompromising duty of good faith disclosure of a prior sale statutory bar (Op. Pet. appendix A-7). Petitioner even asserts, erroneously, that the sale of the dry composition was not prior art to the wet composition since the dry composition was not in existence at the time the alleged invention of the wet composition was supposedly made (Pet. Brief, page 4). The record, however, is otherwise.

Palmquist, however, required an affidavit showing that the alleged invention of the wet composition was completed prior to the prohibited sales of the dry composi-

tion. No such affidavit showing was ever made. Hillman admitted at trial that he never had any intention of filing such an affidavit (Tr. 507). This is easily understandable since the evidence at trial established that the wet composition came into existence in January 1961 (E. 273, P. 1795), long after the prohibited sales.

C. The Prosecution of the Reissue Applications Did Not Bring Forth the True Facts

Petitioner sought to reissue the patents in suit during this litigation. In the face of petitioner's argument that "sale of the claimed composition prior to the critical date had not been proven with a preponderance of the evidence." (E. 245, P. 508, 547), the examiner of the Patent and Trademark Office held that respondent had not proven the prior sales (Op. Pet. appendix A-3, n. 4). The showing at trial remedied that situation (Pet. appendix A-15, Finding 30). Even so, the reissue applications were never pursued and were permitted to become abandoned for failure to respond to Requests For Information. These requests came from the Office of the Commissioner who was investigating the allegations of improper conduct, an investigation that was never completed due to petitioner's failure to respond.

It is thus not surprising, given the admitted facts here, that the Federal Circuit reversed the trial court. The appellate court merely relied on well settled principles of equity and fair dealing, principles long recognized and followed by those practitioners who indeed realize that patents are truly affected with a public interest.

SUMMARY OF ARGUMENT

The questions presented by the petition are not different from those decided long ago by this Court. The guidance of this Court in those opinions, predicated on

equitable principles and mandating an "uncompromising duty" of good faith disclosure of material facts to the Patent Office, has consistently been followed by the courts below.

The Federal Circuit, based on admitted facts, followed the recognized precedents, holding:

> 1. The question of the appropriate standard for determining inequitable conduct before the Patent Office is one of law;
>
> 2. As a matter of law, an applicant cannot amend claims expressly to avoid an anticipating prior art and justifiably consider that there was no duty to bring that prior art to the attention of the examiner; and
>
> 3. Where the uncontradicted facts prove that counsel knew of the materiality of the prior sales and acted on that knowledge, but never disclosed the sales, "good faith" cannot negate inequitable conduct.

No issue in the present Petition for Writ of Certiorari is of such consequence as to require review by this Court.

I. The Standards of Conduct Have Long Been Established

It has long been recognized that the "maxim" has application in patent matters. More than fifty years ago this Court stated:

> " 'It is a principle in chancery, that he who seeks relief must have acted in good faith. The equitable powers of this court can never be exerted in behalf of one who has acted fraudulently or who by deceit or any unfair means has gained an advantage. To aid a

> party in such a case would make this court the abettor of iniquity.' Bein v. Heath, 6 How. 228, 247."

Keystone Driller Company v. General Excavator Company, 290 U.S. 240, 245 (1933).

Those are not hollow words. Their substance, with added emphasis, was repeated in *Precision Instrument Manufacturing Company v. Automotive Maintenance Machinery Company,* 324 U.S. 806 (1945). There, this Court put to rest any doubts about the standard of conduct, stating:

> "Those who have applications pending with the Patent Office or who are parties to Patent Office proceedings have an uncompromising duty to report to it all facts concerning possible fraud and inequitableness underlying the applications in issue. [Citation omitted.] This duty is not excused by reasonable doubts as to the sufficiency of the proof of inequitable conduct nor by resort to independent legal advice. Public interest demands that all relevant facts be submitted formally or informally to the Patent Office, which can then pass on the sufficiency of the evidence." 324 U.S. at 818.

It is inconceivable that such a clear articulation of the duty of candor and good faith disclosure could ever be considered as anything but a solemn mandate that those dealing with the Patent Office have always been bound to a high standard of conduct. That fraud, inequitableness and unfair advantage all spring from the source is recognized, and admitted (Pet. Brief page 7). That conduct deemed inequitable will lead to unenforcibility of a fraudulently procured patent is beyond dispute.

It is thus not surprising that in 1946 the Commissioner of Patents, relying on *Precision,* quite properly stated:

> "A fraud which will invalidate a patent after it is issued should, if discovered earlier, prevent the issuance of the patent." *Ex parte Mallard,* 71 U.S.P.Q. 294, 296 (Com'r Pats. 1946).

The recognition that inequitable and egregious conduct before the Patent Office would not be tolerated was reflected in old Rule 56 (Res. appendix A-2), in effect in 1955. That rule, in part stated:

> " . . . any application . . . in connection with which any fraud is practiced or attempted on the Patent Office, may be stricken from the files."

This rule was not an *ex post facto* adoption of a new standard of conduct as later cases, including those of this Court, prove.

II. The Same Standard Based on Equitable Principles Has Always Been Applied

Of the decisions rendered after 1955 and dealing with fraud and inequitable conduct, three cases decided by three different courts prior to 1971 emerge as significant. In sequence they were:

> *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corporation,* 382 U.S. 172 (1965);
> *Beckman Instruments, Inc. v. Chemtronics, Inc.,* 428 F.2d 555 (5th Cir. 1970), *cert. denied,* 400 U.S. 956 (1970), and
> *Norton v. Curtiss,* 433 F.2d 779 (C.C.P.A. 1970), *reh. denied* (1971).

Walker Process, relying on *Keystone, Precision* and *Hazel-Atlas Co. v. Hartford-Empire Co.,* 322 U.S. 238 (1944), held that "technical fraud" would not support an antitrust claim, whereas a knowing and willful misrepresentation of fact might support such a claim, 382 U.S. at 177.

Petitioner distorts *Walker Process* (Pet. Brief, pages 6-7) by urging that "fraudulent procurement" includes only fraudulent conduct which gives rise to an antitrust claim. Ignored is the fact that *Precision* deals with inequitable conduct; to limit "fraudulent procurement" to what is known as "Walker Process fraud", is to eviscerate *Precision.*[4]

Courts have recognized that fraud renders the patent invalid while inequitable conduct renders the patent unenforceable, *J. P. Stevens & Co. v. Lex Tex Ltd., Inc.,* 747 F.2d 1553, 1560 (Fed. Cir. 1984), *petition for cert. filed,* (No. 84-1858) and cases cited. *Accord, Norton,* 433 F.2d at 792, n.12. The distinction was also recognized in *Beckman,* 428 F.2d at 566, a case whose facts are astonishingly similar to those here.

In *Beckman,* there was known prior art. The art (the Stow device) was recognized as coming within the scope of the claims then pending in the Clark application, 428 F.2d at 565.[5] While the Stow device was recognized as a serious threat to the validity of the patent sought to be obtained, 428 F.2d at 565, it was never disclosed to the Office because it was considered irrelevant, 428 F.2d at 564. Here, petitioner states that the prior sales were not disclosed because they were irrelevant (Pet. Brief, page 4), and even if prior art, the claims were deemed patentable over that art (Pet. Brief, page 4).

The *Beckman* court followed this Court's announced standard of an "uncompromising duty" of disclosure, as set forth in *Precision,* holding that the breach of that duty

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[4]*U.S. Industries, Inc. v. Norton Co.,* 210 U.S.P.Q. 94, 110 (N.D.N.Y. 1980).

[5]The Clark application was pending in the period of 1956 to 1959 shortly before the filing of the applications which became the patents in suit here.

was sufficient to hold the patent invalid. In so doing, the court pointedly observed:

> "Furthermore, the determination that the prior art did not render the patent invalid should have been left to the Patent Office rather than being decided privately by Beckman and Clark. Consequently, we conclude that there was no excuse for appellants' failure to disclose Stow's work to the Patent Office, and this conclusion prevents us from considering Beckman's conduct as fulfilling an 'uncompromising duty' of good faith disclosure." 428 F.2d at 566.

The similarity between the above language and that of the Court in *Precision* is striking.

Petitioner also asserts that it was treated unfairly because the inventions were patentable and the patents are otherwise valid (Pet. Brief, page 5). That assertion is irrelevant, see *Abington Textile Works v. Carding Specialists Ltd.,* 148 U.S.P.Q. 33, 46 (D.D.C. 1965); *Norton,* 433 F.2d 795, n. 15. The *Beckman* court also considered the same assertion as "largely irrelevant", and even went so far as to assume that ". . . Clark's cell was patentable in some manner.", 428 F.2d at 560. If it is relevant that the patents in suit here were initially held valid by the district court (Pet. brief, pages 4, 8), it is far more relevant that the district court failed to apply the correct legal standard.

Thus far, we find no question presented which has not already been addressed. Certainly, there cannot be said to be a conflict between the Fifth Circuit in *Beckman* and the almost contemporaneous opinion by the predecessor of the Federal Circuit in *Norton.*

III. Norton Clearly Recognized That the Standard of Conduct Was That Previously Applied

Petitioner advocates that before the introduction of an allegedly new standard in 1977 (Pet. Brief, page 7), it was not the practice to cite *all* prior art which the examiner *might* consider important (Pet. Brief, page 8). It has never been, and is not now, the rule that *all* pertinent facts which *may* affect the Patent Office decision must be disclosed, *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1362 (Fed. Cir. 1984), cert. denied, 105 S. Ct. 95. On the contrary, the recognized practice, prior to *Norton* and *Beckman* and even prior to *Walker Process,* was to cite to the Patent Office prior art known by the attorney to be material to the outcome of the patent application, *Loshbough v. Allen,* 359 F.2d 910, 911 (C.C.P.A. 1966).[6]

The suggestion that the "but for" test of *Norton* was generally accepted as the only test of materiality is likewise wrong. This narrow view, we submit, not only ignores *Beckman* and the authorities upon which it was based, but represents too restricted a reading of *Norton.*[7] The court, in referring to what is said to be the only test of materiality, expressly stated that "... the above test cannot be applied too narrowly ...", 433 F.2d at 795.

There is no substantive disagreement between the *Beckman* court and the *Norton* court or, for that matter,

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[6]Unfortunately the reported cases in which material prior art, not known to the examiner, was brought forth by the attorney are indeed few. Compliance with the duty of disclosure sometimes later leads to unforeseen issues, see *Loshbough v. Allen,* 373 F.2d 747 (C.C.P.A. 1976), *Loshbough v. Allen,* 404 F.2d 1400 (C.C.P.A. 1969).

[7]The court acknowledged that the "but for" test was set forth in *Norton,* but properly held that respondent was not bound solely by that test (Op. Pet. appendix A-6).

between the opinions of this Court and that whose review is sought.

IV. The Specific Conduct Here Was Egregious and Has Always Been Uniformly Condemned

Five years after *Norton*, a ripe opportunity came to the predecessor of the Federal Circuit to voice its views with respect to the conduct condemned in *Beckman*.

In re Clark, 522 F.2d 623 (C.C.P.A. 1975) came to the court as a result of the attempt to reissue the Clark patent held invalid in the *Beckman* case. In *Clark*, the court fully adopted the standard of *Beckman* with the following pointed comment:

> "We do not agree that appellant could, under the state of the law in 1956 or now, amend claims *expressly* to avoid a Section 102 reference and justifiably consider there was no duty to bring that reference to the examiner's attention." [Italics in original]
>
> 522 F.2d at 627.

Here, materiality was established when the attorney prosecuting the applications recognized that the prior sales were a serious problem and when the pending claims were amended to avoid the anticipating sales. Deceptive intent was established by the deliberate withholding of the highly material information from the office, all in breach of a well recognized duty. Under these circumstances the failure to disclose the information which prompted action in the first instance was, and is, inexcusable. This breach of conduct was so serious that the Federal Circuit never even reached the question of withholding known patent art (Op. Pet. appendix A-2, n. 2).

Considering the admitted facts in the present case and recognizing the equitable basis for the good faith duty of disclosure of material prior art, it is ludicrous to suggest

that a new or undefined standard was applied by the Federal Circuit.

Even the Patent Office recognized that the standard announced in 1977 (Res. appendix A-2) was a codification of existing law and was not new, *Driscoll v. Cebalo,* 731 F.2d 878, 884, n.4, 885 (Fed. Cir. 1984). Based on the uniformity in each of *Precision, Beckman, Norton* and *Clark,* the view of the Office is not only understandable, but correct.

To us, it is surprising that today petitioner understands enough about "inequitable conduct" to be critical of its application here and, in the same breath, has the temerity to ask "But what is it?" (Pet. Brief, page 6) and "what is excluded?" (Pet. Brief, page 7).

Given the facts of this case, the answer was initially given in *Keystone,* repeated in *Precision* and followed in *Beckman* and in *Clark.* The Federal Circuit followed these precedents in this case. Proof of "good faith", has never been excluded.

V. Under the Admitted Facts, the Federal Circuit Properly Found "Good Faith" Lacking

Petitioner asserts that the Federal Circuit held that the attorney's good faith understanding (Pet. Brief, page 4) of the law[8] was not recognized as a defense to inequitable

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[8]The suggestion that Sections 102(b) and 103 were considered separate and distinct is indeed puzzling. Section 102 and the codification set forth in Section 103 have always been considered together in determining patentability, *Graham v. John Deere Co.,* 383 U.S. 1. In speaking of Section 103, this Court stated:

> The first sentence of this section is strongly reminiscent of the language in Hotchkiss. Both formulations place emphasis on the pertinent art existing at the time the invention was made and both are implicitly tied to advances in that art."
>
> 383 U.S. at 14.

conduct (Pet. Brief, page 5). The appellate court has repeatedly recognized that an "erroneous judgment made in good faith" is sufficient to form the basis for a conclusion that inequitable conduct did not exist, *Orthopedic Equipment Corp. v. All Orthopedic Appliances,* 707 F.2d 1376, 1383 (Fed. Cir. 1982), *J.P. Stevens,* 747 F.2d at 1560.

Here, the Federal Circuit correctly rejected petitioner's *argument* of good faith for several reasons. The actor here, in fact, knew of the materiality of information, acted in reliance of the importance of that information to the benefit of the applicant, but intentionally withheld disclosure of that information. To *argue* now that the information was not considered material flies in the face of the attorney's actions at the time.

Palmquist, said to be the controlling legal precedent, was decided after the inequitable conduct in question and had nothing to do with the failure to disclose a known statutory bar to the then pending claims.

By contrast, good faith compliance with *Palmquist* and the then prevailing duty of disclosure, mandated a course of action entirely different from that which actually occurred. Under the recognized "uncompromising duty" of good faith disclosure, if the prior sales were considered sufficently material to warrant amendments to the claims, they were sufficiently material to be disclosed. Under *Palmquist,* an affidavit had to be filed proving that the alleged invention of the amended claims was completed prior to the prohibited sales. Only after full disclosure and the necessary affidavit showing was it proper to amend the claims to avoid the barred sales. Under the rationale of *Palmquist,* the affidavit showing was indispensable to avoid the barred sales as prior art under Section 103 of the statute. Absent such an affidavit showing, the prior sales were prior art.

By deliberately not disclosing the material sales, the applicant also neatly avoided the filing of the necessary affidavit; one which admittedly could not be filed and one which the attorney stated was never going to be filed. The result was that the examiner and the Office acted without any knowledge of facts considered by the attorney as all important in the first instance.

Petitioner's reliance on *Palmquist* was, and is now, a transparent fiction. Under the circumstances, there can be no valid criticism of the Federal Circuit's rejection of the "good faith" defense.

VI. The Patent System Requires the Continued Application of the Uncompromising Duty of Good Faith Disclosure, and Unenforceability of the Entire Patent For A Breach of that Duty

The *Beckman* decision rendered almost fifteen years ago and *Clark* decided some ten years ago have not, as suggested by the petitioner (Pet. Brief, pages 5, 8), brought the patent system to its knees. For sure, patents have been held unenforceable for inequities of the patentee or the patentee's attorney. It is a truism that only those caught in violation of a standard complain about it. However, striking or relaxing the present standard is not justified; greater harm will result if patents tainted by egregious conduct are held enforceable.

A standard less than an "uncompromising duty" of disclosure will only encourage, and offer an excellent device, by which the unscrupulous will be given a sword of Damacles to hold over the head of industry, as was done in this case.[9]

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[9]The patents in suit expired on May 4, 1982. Prior to this litigation, any number of companies had been charged with infringement, but none opted to defend against the charge.

Continued adherence to the recognized standard is mandated. As this Court stated:

> "Public interest demands that all facts relevant to such matters (fraud or inequitableness underlying patent applications) be submitted formally or informally to the Patent Office, which can then pass upon the sufficiency of the evidence. Only in that way can the Patent Office and the public escape from being classed among the 'mute and helpless victims of deception and fraud'." (parenthesis added).
>
> *Precision*, 324 U.S. at 818

CONCLUSION

The Petition presents no significant issue of immediate public concern. In fact, for equitable reasons well settled in prior decisions and followed here, the Federal Circuit did distill out those patents which do not merit that status. This Court should deny the Petition.

Respectfully submitted,

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APPENDIX

The Rules involved are Rule 56 of the Patent and Trademark Office, as follows:

> "A duty of candor and good faith toward the Patent and Trademark Office rests on the inventor, on each attorney or agent who prepares or prosecutes the application and on every other individual who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application. All such individuals have a duty to disclose to the Office information they are aware of which is material to the examination of the application. Such information is material where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent. The duty is commensurate with the degree of involvement in the preparation or prosecution of the application." (adopted 1977)

Prior Rule 56, as it was in effect in September 1955, is as follows:

> "56. Improper applications. Any application signed or sworn to in blank, or without actual inspection by the applicant, and any application altered or partly filled in after being signed or sworn to, and also any application fraudulently filed or in connection with which any fraud is practiced or attempted on the Patent Office, may be stricken from the files." (Rule 56, 1955)